

CANADIAN PACIFIC RAILWAY LTD/CN  
Form 6-K  
July 17, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16**  
**under the Securities Exchange Act of 1934**  
**For the month of July, 2014**

**CANADIAN PACIFIC RAILWAY LIMITED**

**(Commission File No. 1-01342)**

**CANADIAN PACIFIC RAILWAY COMPANY**

**(Commission File No. 1-15272)**

**(translation of each Registrant's name into English)**

**7550 Ogden Dale Road S.E., Calgary, Alberta, Canada, T2C 4X9**

**(address of principal executive offices)**

Indicate by check mark whether the registrants file or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrants are submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrants are submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

This Report furnished on Form 6-K shall be incorporated by reference into the Registration Statements of Canadian Pacific Railway Limited on Form S-8 (File Nos. 333-127943, 333-13962, 333-140955, 333-183891, 333-183892, 333-183893, 333-188826 and 333-188827).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANADIAN PACIFIC RAILWAY LIMITED  
(Registrant)

Date: July 17, 2014

Signed: /s/ Paul A. Guthrie  
By: Name: Paul A. Guthrie  
Title: Corporate Secretary

CANADIAN PACIFIC RAILWAY COMPANY  
(Registrant)

Date: July 17, 2014

Signed: /s/ Paul A. Guthrie  
By: Name: Paul A. Guthrie  
Title: Corporate Secretary

Immediate Release: July 17, 2014

**CP reports Q2-2014 net income of C\$371M or C\$2.11 per diluted share**

**Delivers strongest financial results in company s history**

Calgary, AB - Canadian Pacific Railway Limited (TSX: CP) (NYSE: CP) today announced record Q2 2014 financial results.

Reported net income in the second quarter was \$371 million, or \$2.11 per diluted share, versus \$252 million, or \$1.43 per share, in the second quarter of 2013. This represents a 48 per cent year-over-year improvement in earnings per share.

**SECOND-QUARTER 2014 RESULTS COMPARED WITH SECOND-QUARTER 2013:**

Total revenues were \$1,681 million, an increase of 12 per cent

Operating expenses were \$1,094 million, an increase of 2 per cent

Operating income was \$587 million, an increase of 40 per cent

Operating ratio was 65.1 per cent, a 680 basis point improvement

CP delivered another record quarter, said E. Hunter Harrison, CP s Chief Executive Officer. The team has made great strides in my two years at CP and they continue to demonstrate resiliency by delivering these results despite continued operational challenges in the US Midwest after a devastating winter. The future is very promising for the railroad as we transition towards leveraging our lower cost structure and improved service.

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**Note on forward-looking information**

This news release contains certain forward-looking information within the meaning of applicable securities laws relating, but not limited, to our operations, priorities and plans, anticipated financial performance, purchases of common shares for cancellation under CP s share repurchase program, future sources of capital, business prospects, planned capital expenditures, programs and strategies. This forward-looking information also includes, but is not limited to, statements concerning expectations, beliefs, plans, goals, objectives, assumptions and statements about possible future events, conditions, and results of operations or performance. Forward-looking information may contain statements with words or headings such as financial expectations , key assumptions , anticipate , believe , expect , will , outlook , should or similar words suggesting future outcomes.

Undue reliance should not be placed on forward-looking information as actual results may differ materially from the forward-looking information. Forward-looking information is not a guarantee of future performance. By its nature, CP s forward-looking information involves numerous assumptions, inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking information, including but not limited to the following

factors: changes in business strategies; general North American and global economic, credit and business conditions; risks in agricultural production such as weather conditions and insect populations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry capacity; shifts in market demand; changes in commodity prices; uncertainty surrounding timing and volumes of commodities being shipped via CP; inflation; changes in laws and regulations, including regulation of rates; changes in taxes and tax rates; potential increases in maintenance and operating costs; uncertainties of investigations, proceedings or other types of claims and litigation; labour disputes; risks and liabilities arising

from derailments; transportation of dangerous goods; timing of completion of capital and maintenance projects; currency and interest rate fluctuations; effects of changes in market conditions and discount rates on the financial position of pension plans and investments; and various events that could disrupt operations, including severe weather, droughts, floods, avalanches and earthquakes as well as security threats and governmental response to them, and technological changes. The foregoing list of factors is not exhaustive.

These and other factors are detailed from time to time in reports filed by CP with securities regulators in Canada and the United States. Reference should be made to Management's Discussion and Analysis in CP's annual and interim reports, Annual Information Form and Form 40-F. Readers are cautioned not to place undue reliance on forward-looking information. Forward-looking information is based on current expectations, estimates and projections and it is possible that predictions, forecasts, projections, and other forms of forward-looking information will not be achieved by CP. Except as required by law, CP undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

### **About Canadian Pacific**

Canadian Pacific (TSX:CP)(NYSE:CP) is a transcontinental railway in Canada and the United States with direct links to eight major ports, including Vancouver and Montreal, providing North American customers a competitive rail service with access to key markets in every corner of the globe. CP is growing with its customers, offering a suite of freight transportation services, logistics solutions and supply chain expertise. Visit [www.cpr.ca](http://www.cpr.ca) to see the rail advantages of Canadian Pacific.

### **Contacts**

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#### **Investment Community**

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**CANADIAN PACIFIC RAILWAY LIMITED****INTERIM CONSOLIDATED STATEMENTS OF INCOME**

(in millions of Canadian dollars, except per share data)

(unaudited)

|   | <b>For the three<br/>months<br/>ended June 30</b> |                  | <b>For the six months<br/>ended June 30</b> |                  |
|---|---|------------------|---|------------------|
|   | <b>2014</b>                                       | <b>2013</b>      | <b>2014</b>                                 | <b>2013</b>      |
| <b>Revenues</b>   |   |                  |   |                  |
| Freight   | \$ 1,642  | \$ 1,458         | \$ 3,116                                    | \$ 2,917         |
| Other   | 39  | 39               | 74  | 75               |
| <b>Total revenues</b>   | <b>1,681</b>                                      | <b>1,497</b>     | <b>3,190</b>                                | <b>2,992</b>     |
| <b>Operating expenses</b>                                       |   |                  |   |                  |
| Compensation and benefits                                       | 342   | 334              | 687   | 726              |
| Fuel  | 273   | 246              | 544   | 516              |
| Materials   | 47  | 35               | 99  | 79               |
| Equipment rents   | 40  | 44               | 81  | 90               |
| Depreciation and amortization                                   | 137   | 141              | 278   | 282              |
| Purchased services and other                                    | 255   | 277              | 491   | 517              |
| <b>Total operating expenses</b>                                 | <b>1,094</b>                                      | <b>1,077</b>     | <b>2,180</b>                                | <b>2,210</b>     |
| <b>Operating income</b>   | <b>587</b>  | <b>420</b>       | <b>1,010</b>                                | <b>782</b>       |
| Less:   |   |                  |   |                  |
| Other income and charges  | 3   | 8                | 3   | 11               |
| Net interest expense  | 69  | 68               | 139   | 138              |
| <b>Income before income tax expense</b>                         | <b>515</b>  | <b>344</b>       | <b>868</b>                                  | <b>633</b>       |
| Income tax expense (Note 4)                                     | 144   | 92               | 243   | 164              |
| <b>Net income</b>   | <b>\$ 371</b>                                     | <b>\$ 252</b>    | <b>\$ 625</b>                               | <b>\$ 469</b>    |
| <b>Earnings per share (Note 5)</b>                              |   |                  |   |                  |
| Basic earnings per share  | <b>\$ 2.13</b>                                    | <b>\$ 1.44</b>   | <b>\$ 3.57</b>                              | <b>\$ 2.68</b>   |
| Diluted earnings per share                                      | <b>\$ 2.11</b>                                    | <b>\$ 1.43</b>   | <b>\$ 3.54</b>                              | <b>\$ 2.66</b>   |
| <b>Weighted-average number of shares (in millions) (Note 5)</b> |   |                  |   |                  |
| Basic   | 174.4   | 174.9            | 174.9                                       | 174.6            |
| Diluted   | 175.9   | 176.3            | 176.5                                       | 176.1            |
| <b>Dividends declared per share</b>                             | <b>\$ 0.3500</b>                                  | <b>\$ 0.3500</b> | <b>\$ 0.7000</b>                            | <b>\$ 0.7000</b> |

Certain of the comparative figures have been reclassified in order to be consistent with the 2014 presentation. (*Note 12*)

See Notes to Interim Consolidated Financial Statements.



**CANADIAN PACIFIC RAILWAY LIMITED****INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in millions of Canadian dollars)

(unaudited)

|  | For the three months<br>ended June 30 |               | For the six months<br>ended June 30 |               |
|--|---------------------------------------|---------------|-------------------------------------|---------------|
|  | 2014                                  | 2013          | 2014                                | 2013          |
| Net income   | \$ 371                                | \$ 252        | \$ 625                              | \$ 469        |
| Net gain (loss) in foreign currency translation adjustments, net of hedging activities | 7                                     | (1)           | 7                                   | (3)           |
| Change in derivatives designated as cash flow hedges                                   | (1)                                   | (1)           | (2)                                 |               |
| Change in defined benefit pension and post-retirement plans                            | 31                                    | 61            | 62                                  | 249           |
| Other comprehensive income before income taxes   | 37                                    | 59            | 67                                  | 246           |
| Income tax expense   | (24)                                  | (1)           | (16)                                | (41)          |
| Other comprehensive income ( <i>Note 3</i> )   | 13                                    | 58            | 51                                  | 205           |
| <b>Comprehensive income</b>  | <b>\$ 384</b>                         | <b>\$ 310</b> | <b>\$ 676</b>                       | <b>\$ 674</b> |

See Notes to Interim Consolidated Financial Statements.

**CANADIAN PACIFIC RAILWAY LIMITED*****INTERIM CONSOLIDATED BALANCE SHEETS AS AT,*****(in millions of Canadian dollars)****(unaudited)**

|   | <b>June 30<br/>2014</b> | <b>December 31<br/>2013</b> |
|---|-------------------------|-----------------------------|
| <b>Assets</b>   |                         |                             |
| <b>Current assets</b>                                   |                         |                             |
| Cash and cash equivalents                               | \$ 369                  | \$ 476                      |
| Restricted cash and cash equivalents                    | 402                     | 411                         |
| Accounts receivable, net                                | 687                     | 580                         |
| Materials and supplies                                  | 174                     | 165                         |
| Deferred income taxes                                   | 220                     | 344                         |
| Other current assets                                    | 61                      | 53                          |
|   | 1,913                   | 2,029                       |
| Investments   | 98                      | 92                          |
| Properties  | 13,538                  | 13,327                      |
| Assets held for sale <i>(Note 6)</i>                    |                         | 222                         |
| Goodwill and intangible assets                          | 162                     | 162                         |
| Pension asset   | 1,151                   | 1,028                       |
| Other assets  | 150                     | 200                         |
| <b>Total assets</b>                                     | <b>\$ 17,012</b>        | <b>\$ 17,060</b>            |
| <b>Liabilities and shareholders equity</b>              |                         |                             |
| <b>Current liabilities</b>                              |                         |                             |
| Accounts payable and accrued liabilities                | \$ 1,257                | \$ 1,189                    |
| Long-term debt maturing within one year <i>(Note 8)</i> | 92                      | 189                         |
|   | 1,349                   | 1,378                       |
| Pension and other benefit liabilities                   | 660                     | 657                         |
| Other long-term liabilities                             | 364                     | 338                         |
| Long-term debt <i>(Note 8)</i>                          | 4,633                   | 4,687                       |
| Deferred income taxes                                   | 2,870                   | 2,903                       |
| <b>Total liabilities</b>                                | <b>9,876</b>            | <b>9,963</b>                |
| <b>Shareholders equity <i>(Note 7)</i></b>              |                         |                             |
| Share capital   | 2,248                   | 2,240                       |
| Additional paid-in capital                              | 34                      | 34                          |
| Accumulated other comprehensive loss <i>(Note 3)</i>    | (1,452)                 | (1,503)                     |
| Retained earnings                                       | 6,306                   | 6,326                       |

|   |                  |                  |
|---|------------------|------------------|
|   | 7,136            | 7,097            |
| <b><i>Total liabilities and shareholders equity</i></b> | <b>\$ 17,012</b> | <b>\$ 17,060</b> |

Contingencies (*Note 11*)

See Notes to Interim Consolidated Financial Statements.

**CANADIAN PACIFIC RAILWAY LIMITED****INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions of Canadian dollars)

(unaudited)

|   | <b>For the three months<br/>ended June 30</b> |              | <b>For the six months<br/>ended June 30</b> |              |
|---|---|--------------|---|--------------|
|   | <b>2014</b>                                   | <b>2013</b>  | <b>2014</b>                                 | <b>2013</b>  |
| <b>Operating activities</b>   |   |              |   |              |
| Net income  | \$ 371  | \$ 252       | \$ 625                                      | \$ 469       |
| Reconciliation of net income to cash provided by operating activities:                              |   |              |   |              |
| Depreciation and amortization   | 137   | 141          | 278   | 282          |
| Deferred income taxes (Note 4)  | (15)  | 87           | 74  | 150          |
| Pension funding in excess of expense (Note 10)  | (33)  | (14)         | (65)  | (23)         |
| Other operating activities, net   | 23  | (21)         | 40  | (19)         |
| Change in non-cash working capital balances related to operations                                   | 162   | 75           | (20)  | (72)         |
| <b>Cash provided by operating activities</b>  | <b>645</b>                                    | <b>520</b>   | <b>932</b>                                  | <b>787</b>   |
| <b>Investing activities</b>   |   |              |   |              |
| Additions to properties   | (298)   | (301)        | (522)                                       | (504)        |
| Proceeds from the sale of west end of Dakota, Minnesota and Eastern Railroad (Note 6)               | 236   |              | 236   |              |
| Proceeds from the sale of properties and other assets   | 11  | 11           | 16  | 27           |
| Change in restricted cash and cash equivalents used to collateralize letters of credit              | 7   | (99)         | 9   | (99)         |
| Other   | (1)   | (1)          | (1)   | (26)         |
| <b>Cash used in investing activities</b>  | <b>(45)</b>                                   | <b>(390)</b> | <b>(262)</b>                                | <b>(602)</b> |
| <b>Financing activities</b>   |   |              |   |              |
| Dividends paid  | (62)  | (60)         | (123)                                       | (121)        |
| Issuance of CP common shares  | 22  | 23           | 36  | 63           |
| Purchase of CP common shares (Note 7)   | (447)   |              | (532)                                       |              |
| Repayment of long-term debt   | (11)  | (7)          | (154)                                       | (26)         |
| <b>Cash used in financing activities</b>  | <b>(498)</b>                                  | <b>(44)</b>  | <b>(773)</b>                                | <b>(84)</b>  |
| <b>Effect of foreign currency fluctuations on U.S. dollar-denominated cash and cash equivalents</b> | <b>(12)</b>                                   | <b>9</b>     | <b>(4)</b>                                  | <b>8</b>     |
| <b>Cash position</b>  |   |              |   |              |
| Increase (decrease) in cash and cash equivalents  | 90  | 95           | (107)                                       | 109          |

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Cash and cash equivalents at beginning of period  | 279           | 347           | 476           | 333           |
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 369</b> | <b>\$ 442</b> | <b>\$ 369</b> | <b>\$ 442</b> |

**Supplemental disclosures of cash flow information:**

|                   |       |       |        |        |
|-------------------|-------|-------|--------|--------|
| Income taxes paid | \$ 30 | \$ 5  | \$ 39  | \$ 11  |
| Interest paid     | \$ 88 | \$ 85 | \$ 160 | \$ 151 |

See Notes to Interim Consolidated Financial Statements.

**CANADIAN PACIFIC RAILWAY LIMITED****INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

(in millions of Canadian dollars, except common share amounts)

(unaudited)

|  | Common<br>shares<br>(in<br>millions) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total<br>shareholders<br>equity |
|--|--------------------------------------|------------------|----------------------------------|---|----------------------|---------------------------------|
| <b>Balance at January 1, 2014</b>                  | 175.4                                | \$ 2,240         | \$ 34                            | \$ (1,503)                                    | \$ 6,326             | \$ 7,097                        |
| Net income   |                                      |                  |                                  |   | 625                  | 625                             |
| Other comprehensive income (Note 3)                |                                      |                  |                                  | 51  |                      | 51                              |
| Dividends declared                                 |                                      |                  |                                  |   | (122)                | (122)                           |
| Effect of stock-based compensation<br>expense      |                                      |                  | 11                               |   |                      | 11                              |
| CP common shares repurchased (Note<br>7)           | (3.2)                                | (42)             |                                  |   | (523)                | (565)                           |
| Shares issued under stock option plans<br>(Note 9) | 0.6                                  | 50               | (11)                             |   |                      | 39                              |
| <b>Balance at June 30, 2014</b>                    | 172.8                                | \$ 2,248         | \$ 34                            | \$ (1,452)                                    | \$ 6,306             | \$ 7,136                        |

|  | Common<br>shares<br>(in<br>millions) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>loss | Retained<br>earnings | Total<br>shareholders<br>equity |
|--|--------------------------------------|------------------|----------------------------------|---|----------------------|---------------------------------|
| <b>Balance at January 1, 2013</b>                  | 173.9                                | \$ 2,127         | \$ 41                            | \$ (2,768)                                    | \$ 5,697             | \$ 5,097                        |
| Net income   |                                      |                  |                                  |   | 469                  | 469                             |
| Other comprehensive income (Note 3)                |                                      |                  |                                  | 205   |                      | 205                             |
| Dividends declared                                 |                                      |                  |                                  |   | (124)                | (124)                           |
| Effect of stock-based compensation<br>expense      |                                      |                  | 10                               |   |                      | 10                              |
| Shares issued under stock option plans<br>(Note 9) | 1.1                                  | 86               | (18)                             |   |                      | 68                              |
| <b>Balance at June 30, 2013</b>                    | 175.0                                | \$ 2,213         | \$ 33                            | \$ (2,563)                                    | \$ 6,042             | \$ 5,725                        |

See Notes to Interim Consolidated Financial Statements.

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**CANADIAN PACIFIC RAILWAY LIMITED**

***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***

***June 30, 2014***

***(unaudited)***

***1 Basis of presentation***

These unaudited interim consolidated financial statements of Canadian Pacific Railway Limited ( CP , or the Company ), expressed in Canadian dollars, reflect management 's estimates and assumptions that are necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ( GAAP ). They do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the 2013 annual consolidated financial statements. The accounting policies used are consistent with the accounting policies used in preparing the 2013 annual consolidated financial statements.

CP 's operations can be affected by seasonal fluctuations such as changes in customer demand and weather-related issues. This seasonality could impact quarter-over-quarter comparisons.

In management 's opinion, the unaudited interim consolidated financial statements include all adjustments (consisting of normal and recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

***2 Future accounting changes***

**Reporting discontinued operations and disclosures of disposals of components**

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, an amendment to FASB Accounting Standards Codification ( ASC ) Topic 205 and Topic 360. The update amends the definition of a discontinued operation in Topic 205, expands disclosure requirements for transactions that meet the definition of a discontinued operation and requires entities to disclose information about individually significant components that are disposed of or held for sale and do not qualify as discontinued operations. In addition, an entity is required to separately present assets and liabilities of a discontinued operation for all comparative periods and separately present assets and liabilities of assets held for sale in the initial period in which the disposal group is classified as held for sale on the face of the consolidated balance sheets. For each period in which assets and liabilities are separately presented on the consolidated balance sheets, those amounts should not be offset and presented as a single amount. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2014, and will be applied prospectively. The adoption of this ASU is not expected to have a material impact to the Company 's financial statements.

**Revenue from contracts with customers**

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, a new FASB ASC, Topic 606, which supersedes the revenue recognition requirements in Topic 605 and most industry-specific guidance throughout the Industry Topics of the Codification. This new standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the

entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires enhanced disclosures about revenue to help users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the ASU. The Company has not, at this time, ascertained the full impact on the consolidated financial statements from the adoption of this new standard but does not expect the impact to be material.



## CANADIAN PACIFIC RAILWAY LIMITED

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

## 3 Changes in accumulated other comprehensive loss ( AOCL ) by component

| (in millions of Canadian dollars)                                       | For the three months ended June 30                        |                                      |   |                      | For the six months ended June 30                          |                                      |   |                      |
|---|---|--------------------------------------|---|----------------------|---|--------------------------------------|---|----------------------|
|   | Foreign currency net of hedging activities <sup>(1)</sup> | Derivatives and other <sup>(1)</sup> | Pension and post-retirement defined benefit plans <sup>(1)(2)</sup> | Total <sup>(1)</sup> | Foreign currency net of hedging activities <sup>(1)</sup> | Derivatives and other <sup>(1)</sup> | Pension and post-retirement defined benefit plans <sup>(1)(2)</sup> | Total <sup>(1)</sup> |
| <b>Opening balance, 2014</b>  | \$ 122  | \$ (16)                              | \$ (1,571)  | \$ (1,465)           | \$ 105  | \$ (15)                              | \$ (1,593)  | \$ (1,503)           |
| Other comprehensive income (loss) before reclassifications              | (8)   | (10)                                 |   | (18)                 | 9   |                                      |   | 9                    |
| Amounts reclassified from accumulated other comprehensive loss (income) |   | 8                                    | 23  | 31                   |   | (3)                                  | 45  | 42                   |
| Net current-period other comprehensive (loss) income                    | (8)   | (2)                                  | 23  | 13                   | 9   | (3)                                  | 45  | 51                   |
| <b>Closing balance, 2014</b>  | \$ 114  | \$ (18)                              | \$ (1,548)  | \$ (1,452)           | \$ 114  | \$ (18)                              | \$ (1,548)  | \$ (1,452)           |
| <b>Opening balance, 2013</b>  | \$ 82   | \$ (15)                              | \$ (2,688)  | \$ (2,621)           | \$ 74   | \$ (14)                              | \$ (2,828)  | \$ (2,768)           |
| Other comprehensive income before reclassifications                     | 12  | 10                                   | 8   | 30                   | 20  | 15                                   | 102   | 137                  |
| Amounts reclassified from accumulated other comprehensive (income) loss |   | (9)                                  | 37  | 28                   |   | (15)                                 | 83  | 68                   |

|   |       |         |            |            |       |         |            |            |
|---|-------|---------|------------|------------|-------|---------|------------|------------|
| Net current-period other comprehensive income | 12    | 1       | 45         | 58         | 20    |         | 185        | 205        |
| <b>Closing balance, 2013</b>                  | \$ 94 | \$ (14) | \$ (2,643) | \$ (2,563) | \$ 94 | \$ (14) | \$ (2,643) | \$ (2,563) |

(1) Amounts are presented net of tax.

(2) Reclassified from Accumulated other comprehensive loss.

*Amounts in Pension and post-retirement defined benefit plans reclassified from Accumulated other comprehensive loss*

| (in millions of Canadian dollars)                  | For the three months<br>ended June 30 |              | For the six months<br>ended June 30 |              |
|--|---------------------------------------|--------------|-------------------------------------|--------------|
|  | 2014                                  | 2013         | 2014                                | 2013         |
| Amortization of prior service costs <sup>(1)</sup> | \$ (17)                               | \$ (17)      | \$ (34)                             | \$ (23)      |
| Recognition of net actuarial loss <sup>(1)</sup>   | 48                                    | 70           | 96                                  | 137          |
| <b>Total before income tax</b>                     | <b>31</b>                             | <b>53</b>    | <b>62</b>                           | <b>114</b>   |
| Income tax recovery                                | (8)                                   | (16)         | (17)                                | (31)         |
| <b>Net of income tax</b>                           | <b>\$ 23</b>                          | <b>\$ 37</b> | <b>\$ 45</b>                        | <b>\$ 83</b> |

(1) Impacts Compensation and benefits on the Consolidated Statements of Income.

**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014***(unaudited)***4 Income taxes**

| (in millions of Canadian dollars)      | For the three months |              | For the six months |               |
|--|----------------------|--------------|--------------------|---------------|
|  | ended June 30        |              | ended June 30      |               |
|  | 2014                 | 2013         | 2014               | 2013          |
| Current income tax expense             | \$ 159               | \$ 5         | \$ 169             | \$ 14         |
| Deferred income tax expense (recovery) | (15)                 | 87           | 74                 | 150           |
| <b>Income tax expense</b>              | <b>\$ 144</b>        | <b>\$ 92</b> | <b>\$ 243</b>      | <b>\$ 164</b> |

The effective income tax rate for the three and six months ended June 30, 2014 was 28% (three and six months ended June 30, 2013 27% and 26%, respectively). The lower rate in 2013 was primarily the result of a benefit recognized for a U.S. federal track maintenance credit of \$6 million for 2012 enacted in the first quarter of 2013.

**5 Earnings per share**

At June 30, 2014, the number of shares outstanding was 172.8 million (June 30, 2013 175.0 million).

Basic earnings per share have been calculated using net income for the period divided by the weighted-average number of shares outstanding during the period.

The number of shares used in earnings per share calculations is reconciled as follows:

| (in millions)                                      | For the three months |              | For the six months |              |
|--|----------------------|--------------|--------------------|--------------|
|  | ended June 30        |              | ended June 30      |              |
|  | 2014                 | 2013         | 2014               | 2013         |
| Weighted-average basic shares outstanding          | 174.4                | 174.9        | 174.9              | 174.6        |
| Dilutive effect of stock options                   | 1.5                  | 1.4          | 1.6                | 1.5          |
| <b>Weighted-average diluted shares outstanding</b> | <b>175.9</b>         | <b>176.3</b> | <b>176.5</b>       | <b>176.1</b> |

For the three and six months ended June 30, 2014, there were 124,093 options and 120,930 options, respectively, excluded from the computation of diluted earnings per share because their effects were not dilutive (three and six

months ended June 30, 2013 5,867 and 55,375, respectively).

**6 Assets held for sale**

On May 30, 2014, the Company completed the sale of the west end of Dakota, Minnesota and Eastern Railroad ( DM&E West ) to Genesee & Wyoming Inc. ( G&W ) for net proceeds of U.S. \$218 million (CDN \$236 million), subject to closing adjustments to be finalized between the Company and G&W in the third quarter of 2014.

**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014***(unaudited)***7 Shareholders Equity**

On February 20, 2014, the Board of Directors of the Company approved a share repurchase program, and in March 2014, the Company filed a new normal course issuer bid to purchase, for cancellation, up to 5.3 million of its outstanding Common Shares. Under the filing, share purchases may be made during the 12-month period that began March 17, 2014, and ends March 16, 2015. The purchases are made at the market price on the day of purchase, with consideration allocated to share capital up to the average carrying amount of the shares, and any excess allocated to retained earnings.

The following table provides the activities under the share repurchase program:

|   | <b>For the three months<br/>ended June 30<br/>2014</b> | <b>For the six months<br/>ended June 30 2014</b> |
|---|--|--|
| Number of common shares repurchased               | 2,702,232  | 3,269,982  |
| Weighted-average price per share <sup>(1)</sup>   | \$ 176.86  | \$ 172.90  |
| Amount of repurchase (in millions) <sup>(1)</sup> | \$ 478   | \$ 565   |

<sup>(1)</sup> Includes brokerage fees.

**8 Financial instruments****A. Fair values of financial instruments**

The Company categorizes its financial assets and liabilities measured at fair value in line with the fair value hierarchy established by GAAP that prioritizes, with respect to reliability, the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and give the highest priority to these inputs. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and give lower priority to these inputs.

When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Level 2, the Company uses standard valuation techniques to calculate fair value. Primary inputs to these techniques include observable market prices (interest,

foreign exchange and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. The Company uses inputs and data used by willing market participants when valuing derivatives and considers its own credit default swap spread as well as those of its counterparties in its determination of fair value.

The carrying values of financial instruments equal or approximate their fair values with the exception of long-term debt which has a fair value of approximately \$5,715 million at June 30, 2014 (December 31, 2013 - \$5,572 million) and a carrying value of \$4,725 million at June 30, 2014 (December 31, 2013 - \$4,876 million). The estimated fair value of current and long-term borrowings has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates expected to be available to the Company at period end. All derivatives and long-term debt are classified as Level 2.

## **B. Financial risk management**

### **Derivative financial instruments**

Derivative financial instruments may be used to selectively reduce volatility associated with fluctuations in interest rates, foreign exchange ( FX ) rates, the price of fuel and stock-based compensation expense. Where derivatives are designated as hedging instruments, the relationship between the hedging instruments and their associated hedged items is documented, as well as the risk management objective and strategy for the use of the hedging instruments. This documentation includes linking the derivatives that are designated as fair value or cash flow hedges to specific assets or liabilities on the Consolidated Balance Sheet, commitments or forecasted transactions. At the time a derivative contract is entered into and at least quarterly thereafter, an assessment is made whether the derivative item is effective in offsetting the changes in fair value or cash flows of the hedged items. The derivative qualifies for hedge accounting treatment if it is effective in substantially mitigating the risk it was designed to address.

It is not the Company's intent to use financial derivatives or commodity instruments for trading or speculative purposes.

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**CANADIAN PACIFIC RAILWAY LIMITED**

***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***

***June 30, 2014***

***(unaudited)***

**8 *Financial instruments (continued)***

**Foreign exchange management**

The Company conducts business transactions and owns assets in both Canada and the United States. As a result, the Company is exposed to fluctuations in value of financial commitments, assets, liabilities, income or cash flows due to changes in FX rates. The Company may enter into foreign exchange risk management transactions primarily to manage fluctuations in the exchange rate between Canadian and U.S. currencies. FX exposure is primarily mitigated through natural offsets created by revenues, expenditures and balance sheet positions incurred in the same currency. Where appropriate, the Company may negotiate with customers and suppliers to reduce the net exposure.

Occasionally the Company may enter into short-term FX forward contracts as part of its cash management strategy.

**Net investment hedge**

The FX gains and losses on long-term debt are mainly unrealized and can only be realized when U.S. dollar denominated long-term debt matures or is settled. The Company also has long-term FX exposure on its investment in U.S. affiliates. The majority of the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in foreign subsidiaries. This designation has the effect of mitigating volatility on net income by offsetting long-term FX gains and losses on U.S. dollar denominated long-term debt and gains and losses on its net investment. The effective portion recognized in Other comprehensive income for the three and six months ended June 30, 2014 was an unrealized foreign exchange gain of \$119 million and a loss of \$12 million, respectively (three and six months ended June 30, 2013 unrealized foreign exchange loss of \$110 million and \$177 million, respectively). There was no ineffectiveness during the three and six months ended June 30, 2014 and comparative periods.

**Foreign exchange forward contracts**

The Company may enter into FX forward contracts to lock in the amount of Canadian dollars it has to pay on its U.S. denominated debt maturities.

At June 30, 2014, the Company had no remaining FX forward contracts to fix the exchange rate on U.S. denominated debt maturities. At December 31, 2013, the Company had FX forward contracts to fix the exchange rate on US\$100 million of principal outstanding on a capital lease due in January 2014, US\$175 million of its 6.50% Notes due in May 2018, and US\$100 million of its 7.25% Notes due in May 2019. These derivatives, which were accounted for as cash flow hedges, guaranteed the amount of Canadian dollars that the Company would repay when these obligations mature.

During the three months ended March 31, 2014, the Company settled the FX forward contract related to the repayment of a capital lease due in January 2014 for proceeds of \$8 million.

During the three months ended June 30, 2014, the Company de-designated and settled prior to maturity the FX forward contracts related to the repayment of its 6.50% Notes due in May 2018 and its 7.25% Notes due in May 2019 for proceeds of \$17 million to be settled in the third quarter of 2014.

During the three and six months ended June 30, 2014, the combined realized and unrealized foreign exchange loss was \$8 million and the combined realized and unrealized foreign exchange gain was \$3 million, respectively (three and six months ended June 30, 2013 unrealized gains of \$10 million and \$15 million, respectively), were recorded in Other income and charges in relation to these derivatives. Gains recorded in Other income and charges were largely offset by losses on the underlying debt which the derivatives were designated to hedge. Similarly, losses were largely offset by gains on the underlying debt.

At June 30, 2014, the realized gain derived from these FX forwards was \$17 million which was recorded in Accounts receivables with the offset reflected as realized gains of \$3 million in Accumulated other comprehensive loss and \$14 million in Retained earnings. At December 31, 2013, the unrealized gains derived from these FX forwards was \$25 million of which \$6 million was included in Other current assets and \$19 million in Other assets with the offsets reflected as unrealized gains of \$5 million in Accumulated other comprehensive loss and \$20 million in Retained earnings.

Amounts remaining in Accumulated other comprehensive loss at June 30, 2014 will be amortized to Other income and charges until the underlying debts which were hedged are repaid.

At June 30, 2014, the Company expected that, during the next twelve months, a pre-tax gain of \$1 million would be reclassified to Other income and charges.



**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014****(unaudited)****9 Stock-based compensation**

At June 30, 2014, the Company had several stock-based compensation plans, including stock option plans, various cash settled liability plans and an employee stock savings plan. These plans resulted in an expense of \$39 million for the three months ended June 30, 2014 and an expense of \$61 million for the six months ended June 30, 2014 (three and six months ended June 30, 2013, an expense of \$10 million and \$43 million, respectively).

**Regular options**

In the six months ended June 30, 2014, under CP's stock option plans, the Company issued 375,430 regular options at the weighted-average price of \$169.00 per share, based on the closing price on the grant date.

Pursuant to the employee plans, these regular options may be exercised upon vesting, which is between 12 and 48 months after the grant date, and will expire after 10 years.

Under the fair value method, the fair value of the regular options at the grant date was \$17 million. The weighted-average fair value assumptions were approximately:

|  | <b>For the six months<br/>ended June 30, 2014</b> |        |
|--|---|--------|
| Grant price  | \$  | 169.00 |
| Expected option life (years) <sup>(1)</sup>  |   | 5.83   |
| Risk-free interest rate <sup>(2)</sup>   |   | 1.65%  |
| Expected stock price volatility <sup>(3)</sup>                                       |   | 28.63% |
| Expected annual dividends per share <sup>(4)</sup>                                   | \$  | 1.40   |
| Expected forfeiture rate <sup>(5)</sup>  |   | 1.40%  |
| Weighted-average grant date fair value per regular options granted during the period | \$  | 46.46  |

- (1) Represents the period of time that awards are expected to be outstanding. Historical data on exercise behaviour, or when available, specific expectations regarding future exercise behaviour, were used to estimate the expected life of the option.
- (2) Based on the implied yield available on zero-coupon government issues with an equivalent remaining term at the time of the grant.
- (3) Based on the historical stock price volatility of the Company's stock over a period commensurate with the expected term of the option.
- (4)

Determined by the current annual dividend at the time of grant. The Company does not employ different dividend yields throughout the contractual term of the option.

- (5) The Company estimated forfeitures based on past experience. This rate is monitored on a periodic basis.

**Performance share unit ( PSU ) plan**

In the six months ended June 30, 2014, the Company issued 165,390 PSUs with a grant date fair value of approximately \$25 million. These units attract dividend equivalents in the form of additional units based on the dividends paid on the Company's Common Shares. PSUs vest and are settled in cash, or in CP common shares approximately three years after the grant date, contingent upon CP's performance ( performance factor ). The fair value of PSUs is measured, both on the grant date and each subsequent quarter until settlement, using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the performance factor and market conditions stipulated in the grant.

**Deferred share unit ( DSU ) plan**

In the six months ended June 30, 2014, the Company granted 49,846 DSUs with a grant date fair value of approximately \$8 million. DSUs vest over various periods of up to 48 months and are only redeemable for a specified period after employment is terminated. An expense for DSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

**Restricted share unit ( RSU ) plan**

In the six months ended June 30, 2014, the Company granted 15,641 RSUs with a grant date fair value of approximately \$3 million. RSUs are subject to time vesting over 36 months. An expense for RSUs is recognized over the vesting period for both the initial subscription price and the change in value between reporting periods.

## CANADIAN PACIFIC RAILWAY LIMITED

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

**10 Pensions and other benefits**

In the three and six months ended June 30, 2014, the Company made contributions of \$20 million and \$39 million, respectively (three and six months ended 2013 - \$22 million and \$52 million, respectively) to its defined benefit pension plans. The net periodic benefit cost for defined benefit pension plans and other benefits recognized in the three and six months ended June 30, 2014 included the following components:

**For the three months****ended June 30**

| (in millions of Canadian dollars)                                 | <b>Pensions</b> |             | <b>Other benefits</b> |             |
|---|-----------------|-------------|-----------------------|-------------|
|   | <b>2014</b>     | <b>2013</b> | <b>2014</b>           | <b>2013</b> |
| Current service cost (benefits earned by employees in the period) | \$ 26           | \$ 33       | \$ 4                  | \$ 4        |
| Interest cost on benefit obligation                               | 119             | 111         | 6                     | 6           |
| Expected return on fund assets                                    | (189)           | (187)       |                       |             |
| Recognized net actuarial loss                                     | 48              | 68          |                       | 2           |
| Amortization of prior service costs                               | (17)            | (17)        |                       |             |
| Net periodic benefit (recovery) cost                              | \$ (13)         | \$ 8        | \$ 10                 | \$ 12       |

**For the six months****ended June 30**

| (in millions of Canadian dollars)                                 | <b>Pensions</b> |             | <b>Other benefits</b> |             |
|---|-----------------|-------------|-----------------------|-------------|
|   | <b>2014</b>     | <b>2013</b> | <b>2014</b>           | <b>2013</b> |
| Current service cost (benefits earned by employees in the period) | \$ 53           | \$ 68       | \$ 7                  | \$ 8        |
| Interest cost on benefit obligation                               | 238             | 223         | 12                    | 11          |
| Expected return on fund assets                                    | (378)           | (373)       |                       |             |
| Recognized net actuarial loss                                     | 95              | 134         | 1                     | 3           |
| Amortization of prior service costs                               | (34)            | (23)        |                       |             |
| Net periodic benefit (recovery) cost                              | \$ (26)         | \$ 29       | \$ 20                 | \$ 22       |

## ***11 Contingencies***

In the normal course of its operations, the Company becomes involved in various legal actions, including claims relating to injuries and damages to property. The Company maintains provisions it considers to be adequate for such actions. While the final outcome with respect to actions outstanding or pending at June 30, 2014 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material effect on the Company's financial position or results of operations individually and in aggregate.

### **Legal proceedings related to Lac-Megantic rail accident**

On July 6, 2013, a train carrying crude oil operated by Montreal, Maine and Atlantic Railway ( MM&A ) derailed and exploded in Lac-Megantic, Quebec on a section of a railway line owned by MM&A. The day before CP had interchanged the train to MM&A, but after the interchange MM&A exercised exclusive control over the train.

Following this incident, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec issued an order directing named parties to recover the contaminants and to clean up and decontaminate the derailment. CP was later added as a named party in the administrative action on August 14, 2013.

A class action has also been filed in the Superior Court of Quebec on behalf of a class of persons and entities residing in, owning or leasing property in, operating a business in or physically present in Lac-Megantic. The law-suit seeks damage

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**CANADIAN PACIFIC RAILWAY LIMITED**

***NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS***

***June 30, 2014***

***(unaudited)***

***11 Contingencies (continued)***

caused by the derailment including for wrongful deaths, personal injuries, and property damages. CP was added as a defendant on August 16, 2013. In the wake of the derailment and ensuing litigation, MM&A filed for bankruptcy in Canada and the United States.

At this early stage in the legal proceedings, any potential liability and the quantum of potential loss cannot be determined. Nevertheless, CP denies liability for MM&A's derailment and will vigorously defend itself in both proceedings or any proceeding that may be commenced in the future.

**Environmental liabilities**

Environmental remediation accruals cover site-specific remediation programs. The accruals for environmental remediation represent CP's best estimate of its probable future obligation and include both asserted and unasserted claims, without reduction for anticipated recoveries from third parties. Environmental remediation accruals are measured on an undiscounted basis unless a reliably determinable estimate as to amount and timing of costs can be established. The accruals are recorded when the costs to remediate are probable and reasonably estimable. Certain future costs to monitor sites are discounted at a risk free rate. Although the recorded accruals include CP's best estimate of all probable costs, CP's total environmental remediation costs cannot be predicted with certainty. Accruals for environmental remediation may change from time to time as new information about previously untested sites becomes known, environmental laws and regulations evolve and advances are made in environmental remediation technology. The accruals may also vary as the courts decide legal proceedings against outside parties responsible for contamination. These potential charges, which cannot be quantified at this time, are not expected to be material to CP's financial position, but may materially affect income in the particular period in which a charge is recognized. Costs related to existing, but as yet unknown, or future contamination will be accrued in the period in which they become probable and reasonably estimable.

The expense included in Purchased services and other for the three and six months ended June 30, 2014 was \$nil and \$1 million, respectively (three and six months ended June 30, 2013 \$nil and expense of \$1 million, respectively). Provisions for environmental remediation costs are recorded in Other long-term liabilities, except for the current portion which is recorded in Accounts payable and accrued liabilities. The total amount provided at June 30, 2014 was \$89 million (December 31, 2013 \$90 million). Payments are expected to be made over 10 years to 2024.

**CANADIAN PACIFIC RAILWAY LIMITED****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2014***(unaudited)***12 Reclassification of comparative figures**

Billings to third parties for the recovery of costs incurred for freight car repairs and servicing have been reclassified from Purchased services and other to Compensation and benefits and Materials within Operating expenses, in order to match the billings with the costs incurred on behalf of third parties. As a result, the changes to these components of Operating expenses for the three and six months ended June 30, 2013 are noted below. Operating expenses in total were unchanged as a result of this reclassification.

| (in millions of Canadian dollars)               | <b>Compensation<br/>and benefits</b> | <b>Material</b> | <b>Purchased<br/>services and<br/>other</b> |
|---|--------------------------------------|-----------------|---|
| <b>For the three months ended June 30, 2013</b> |                                      |                 |   |
| As previously reported                          | \$ 342                               | \$ 58           | \$ 246                                      |
| (Decrease) increase                             | (8)                                  | (23)            | 31  |
| As reclassified                                 | \$ 334                               | \$ 35           | \$ 277                                      |
| <b>For the six months ended June 30, 2013</b>   |                                      |                 |   |
| As previously reported                          | \$ 744                               | \$ 130          | \$ 448                                      |
| (Decrease) increase                             | (18)                                 | (51)            | 69  |
| As reclassified                                 | \$ 726                               | \$ 79           | \$ 517                                      |

**Summary of Rail Data**

| Second Quarter            |          |             |                | Financial (millions, except per share data) | Year-to-date |          |             |                |
|---------------------------|----------|-------------|----------------|---|--------------|----------|-------------|----------------|
| 2014                      | 2013     | Fav/(Unfav) | %              |   | 2014         | 2013     | Fav/(Unfav) | %              |
| <b>Revenues</b>           |          |             |                |   |              |          |             |                |
| \$ 1,642                  | \$ 1,458 | \$ 184      | <b>13</b>      | Freight revenue                             | \$ 3,116     | \$ 2,917 | \$ 199      | <b>7</b>       |
| 39                        | 39       |             |                | Other revenue                               | 74           | 75       | (1)         | <b>(1)</b>     |
| 1,681                     | 1,497    | 184         | <b>12</b>      | Total revenues                              | 3,190        | 2,992    | 198         | <b>7</b>       |
| <b>Operating expenses</b> |          |             |                |   |              |          |             |                |
| 342                       | 334      | (8)         | <b>(2)</b>     | Compensation and benefits <sup>(1)</sup>    | 687          | 726      | 39          | <b>5</b>       |
| 273                       | 246      | (27)        | <b>(11)</b>    | Fuel  | 544          | 516      | (28)        | <b>(5)</b>     |
| 47                        | 35       | (12)        | <b>(34)</b>    | Materials <sup>(1)</sup>                    | 99           | 79       | (20)        | <b>(25)</b>    |
| 40                        | 44       | 4           | <b>9</b>       | Equipment rents                             | 81           | 90       | 9           | <b>10</b>      |
| 137                       | 141      | 4           | <b>3</b>       | Depreciation and amortization               | 278          | 282      | 4           | <b>1</b>       |
| 255                       | 277      | 22          | <b>8</b>       | Purchased services and other <sup>(1)</sup> | 491          | 517      | 26          | <b>5</b>       |
| 1,094                     | 1,077    | (17)        | <b>(2)</b>     | Total operating expenses                    | 2,180        | 2,210    | 30          | <b>1</b>       |
| 587                       | 420      | 167         | <b>40</b>      | Operating income                            | 1,010        | 782      | 228         | <b>29</b>      |
| Less:                     |          |             |                |   |              |          |             |                |
| 3                         | 8        | 5           | <b>63</b>      | Other income and charges                    | 3            | 11       | 8           | <b>73</b>      |
| 69                        | 68       | (1)         | <b>(1)</b>     | Net interest expense                        | 139          | 138      | (1)         | <b>(1)</b>     |
| 515                       | 344      | 171         | <b>50</b>      | Income before income tax expense            | 868          | 633      | 235         | <b>37</b>      |
| 144                       | 92       | (52)        | <b>(57)</b>    | Income tax expense                          | 243          | 164      | (79)        | <b>(48)</b>    |
| \$ 371                    | \$ 252   | \$ 119      | <b>47</b>      | Net income                                  | \$ 625       | \$ 469   | \$ 156      | <b>33</b>      |
| 65.1                      | 71.9     | 6.8         | <b>680 bps</b> | Operating ratio (%)                         | 68.3         | 73.9     | 5.6         | <b>560 bps</b> |
| \$ 2.13                   | \$ 1.44  | \$ 0.69     | <b>48</b>      | Basic earnings per share                    | \$ 3.57      | \$ 2.68  | \$ 0.89     | <b>33</b>      |
| \$ 2.11                   | \$ 1.43  | \$ 0.68     | <b>48</b>      | Diluted earnings per share                  | \$ 3.54      | \$ 2.66  | \$ 0.88     | <b>33</b>      |

**Shares Outstanding**

|                                |       |       |          |  |       |       |      |          |
|--------------------------------|-------|-------|----------|--|-------|-------|------|----------|
| 174.4                          | 174.9 | (0.5) |          | Weighted average number of shares outstanding (millions)         | 174.9 | 174.6 | 0.3  |          |
| 175.9                          | 176.3 | (0.4) |          | Weighted average number of diluted shares outstanding (millions) | 176.5 | 176.1 | 0.4  |          |
| <b><u>Foreign Exchange</u></b> |       |       |          |  |       |       |      |          |
| 0.91                           | 0.98  | 0.07  | <b>7</b> | Average foreign exchange rate (US\$/Canadian\$)                  | 0.91  | 0.99  | 0.08 | <b>8</b> |
| 1.10                           | 1.02  | 0.08  | <b>8</b> | Average foreign exchange rate (Canadian\$/US\$)                  | 1.10  | 1.01  | 0.09 | <b>9</b> |

- (1) Billings to third parties for the recovery of costs incurred for freight car repairs and servicing have been reclassified from Purchased services and other to Compensation and benefits and Materials within Operating expenses.



**Summary of Rail Data (Page 2)**

|                                    |             | <b>Second Quarter</b> |             |                            |             | <b>Year-to-date</b> |                    |             |  |
|------------------------------------|-------------|-----------------------|-------------|----------------------------|-------------|---------------------|--------------------|-------------|--|
| <b>2014</b>                        | <b>2013</b> | <b>Fav/(Unfav)</b>    | <b>%</b>    |                            | <b>2014</b> | <b>2013</b>         | <b>Fav/(Unfav)</b> | <b>%</b>    |  |
| <b>Commodity Data</b>              |             |                       |             |                            |             |                     |                    |             |  |
| <b>Freight Revenues (millions)</b> |             |                       |             |                            |             |                     |                    |             |  |
| \$ 252                             | \$ 191      | \$ 61                 | <b>32</b>   | - Canadian Grain           | \$ 473      | \$ 394              | \$ 79              | <b>20</b>   |  |
| 115                                | 91          | 24                    | <b>26</b>   | - U.S. Grain               | 221         | 202                 | 19                 | <b>9</b>    |  |
| 165                                | 144         | 21                    | <b>15</b>   | - Coal                     | 313         | 293                 | 20                 | <b>7</b>    |  |
| 101                                | 95          | 6                     | <b>6</b>    | - Potash                   | 181         | 177                 | 4                  | <b>2</b>    |  |
| 64                                 | 68          | (4)                   | <b>(6)</b>  | - Fertilizers and sulphur  | 118         | 138                 | (20)               | <b>(14)</b> |  |
| 52                                 | 53          | (1)                   | <b>(2)</b>  | - Forest products          | 100         | 106                 | (6)                | <b>(6)</b>  |  |
| 155                                | 138         | 17                    | <b>12</b>   | - Chemicals and plastics   | 302         | 277                 | 25                 | <b>9</b>    |  |
| 114                                | 97          | 17                    | <b>18</b>   | - Crude                    | 218         | 189                 | 29                 | <b>15</b>   |  |
| 170                                |             |                       |             | - Metals, minerals, and    |             |                     |                    |             |  |
|                                    | 144         | 26                    | <b>18</b>   | consumer products          | 331         | 285                 | 46                 | <b>16</b>   |  |
| 104                                | 106         | (2)                   | <b>(2)</b>  | - Automotive               | 192         | 203                 | (11)               | <b>(5)</b>  |  |
| 200                                | 171         | 29                    | <b>17</b>   | - Domestic intermodal      | 377         | 341                 | 36                 | <b>11</b>   |  |
| 150                                | 160         | (10)                  | <b>(6)</b>  | - International intermodal | 290         | 312                 | (22)               | <b>(7)</b>  |  |
| \$ 1,642                           | \$ 1,458    | \$ 184                | <b>13</b>   | Total Freight Revenues     | \$ 3,116    | \$ 2,917            | \$ 199             | <b>7</b>    |  |
| <b>Millions of Revenue</b>         |             |                       |             |                            |             |                     |                    |             |  |
| <b>Ton-Miles (RTM)</b>             |             |                       |             |                            |             |                     |                    |             |  |
| 7,074                              | 5,272       | 1,802                 | <b>34</b>   | - Canadian Grain           | 12,920      | 10,647              | 2,273              | <b>21</b>   |  |
| 2,679                              | 2,411       | 268                   | <b>11</b>   | - U.S. Grain               | 5,218       | 5,466               | (248)              | <b>(5)</b>  |  |
| 5,941                              | 5,316       | 625                   | <b>12</b>   | - Coal                     | 11,382      | 10,956              | 426                | <b>4</b>    |  |
| 4,114                              | 4,254       | (140)                 | <b>(3)</b>  | - Potash                   | 7,407       | 7,890               | (483)              | <b>(6)</b>  |  |
| 1,130                              | 1,352       | (222)                 | <b>(16)</b> | - Fertilizers and sulphur  | 2,204       | 2,668               | (464)              | <b>(17)</b> |  |
| 1,003                              | 1,267       | (264)                 | <b>(21)</b> | - Forest products          | 1,923       | 2,490               | (567)              | <b>(23)</b> |  |
| 3,326                              | 3,435       | (109)                 | <b>(3)</b>  | - Chemicals and plastics   | 6,532       | 6,969               | (437)              | <b>(6)</b>  |  |
| 3,816                              | 3,640       | 176                   | <b>5</b>    | - Crude                    | 7,174       | 7,131               | 43                 | <b>1</b>    |  |
| 2,698                              |             |                       |             | - Metals, minerals, and    |             |                     |                    |             |  |
|                                    | 2,339       | 359                   | <b>15</b>   | consumer products          | 5,411       | 4,850               | 561                | <b>12</b>   |  |
| 597                                | 629         | (32)                  | <b>(5)</b>  | - Automotive               | 1,111       | 1,233               | (122)              | <b>(10)</b> |  |
| 3,003                              | 2,546       | 457                   | <b>18</b>   | - Domestic intermodal      | 5,637       | 5,064               | 573                | <b>11</b>   |  |
| 3,048                              | 3,530       | (482)                 | <b>(14)</b> | - International intermodal | 5,885       | 6,790               | (905)              | <b>(13)</b> |  |
| 38,429                             | 35,991      | 2,438                 | <b>7</b>    | Total RTMs                 | 72,804      | 72,154              | 650                | <b>1</b>    |  |
| <b>Freight Revenue per RTM</b>     |             |                       |             |                            |             |                     |                    |             |  |
| <b>(cents)</b>                     |             |                       |             |                            |             |                     |                    |             |  |
| 3.56                               | 3.61        | (0.05)                | <b>(1)</b>  | - Canadian Grain           | 3.66        | 3.69                | (0.03)             | <b>(1)</b>  |  |
| 4.31                               | 3.77        | 0.54                  | <b>14</b>   | - U.S. Grain               | 4.24        | 3.70                | 0.54               | <b>15</b>   |  |
| 2.79                               | 2.70        | 0.09                  | <b>3</b>    | - Coal                     | 2.75        | 2.67                | 0.08               | <b>3</b>    |  |

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|       |       |        |            |                            |       |       |        |            |
|-------|-------|--------|------------|----------------------------|-------|-------|--------|------------|
| 2.46  | 2.24  | 0.22   | <b>10</b>  | - Potash                   | 2.44  | 2.24  | 0.20   | <b>9</b>   |
| 5.61  | 5.01  | 0.60   | <b>12</b>  | - Fertilizers and sulphur  | 5.35  | 5.16  | 0.19   | <b>4</b>   |
| 5.20  | 4.20  | 1.00   | <b>24</b>  | - Forest products          | 5.19  | 4.26  | 0.93   | <b>22</b>  |
| 4.67  | 3.98  | 0.69   | <b>17</b>  | - Chemicals and plastics   | 4.63  | 3.94  | 0.69   | <b>18</b>  |
| 2.99  | 2.67  | 0.32   | <b>12</b>  | - Crude                    | 3.04  | 2.65  | 0.39   | <b>15</b>  |
| 6.27  |       |        |            | - Metals, minerals, and    |       |       |        |            |
|       | 6.22  | 0.05   | <b>1</b>   | consumer products          | 6.11  | 5.92  | 0.19   | <b>3</b>   |
| 17.37 | 16.87 | 0.50   | <b>3</b>   | - Automotive               | 17.31 | 16.49 | 0.82   | <b>5</b>   |
| 6.66  | 6.72  | (0.06) | <b>(1)</b> | - Domestic intermodal      | 6.69  | 6.73  | (0.04) | <b>(1)</b> |
| 4.94  | 4.52  | 0.42   | <b>9</b>   | - International intermodal | 4.93  | 4.60  | 0.33   | <b>7</b>   |
| 4.27  |       |        |            | Total Freight Revenue per  |       |       |        |            |
|       | 4.05  | 0.22   | <b>5</b>   | RTM                        | 4.28  | 4.04  | 0.24   | <b>6</b>   |

**Summary of Rail Data (Page 3)**

| Second Quarter                     |          |             |             | Year-to-date                      |          |          |             |             |
|------------------------------------|----------|-------------|-------------|-----------------------------------|----------|----------|-------------|-------------|
| 2014                               | 2013     | Fav/(Unfav) | %           |                                   | 2014     | 2013     | Fav/(Unfav) | %           |
| <b>Carloads (thousands)</b>        |          |             |             |                                   |          |          |             |             |
| 78                                 | 61       | 17          | <b>28</b>   | - Canadian Grain                  | 140      | 120      | 20          | <b>17</b>   |
| 44                                 | 42       | 2           | <b>5</b>    | - U.S. Grain                      | 83       | 91       | (8)         | <b>(9)</b>  |
| 82                                 | 75       | 7           | <b>9</b>    | - Coal                            | 160      | 156      | 4           | <b>3</b>    |
| 33                                 | 35       | (2)         | <b>(6)</b>  | - Potash                          | 61       | 65       | (4)         | <b>(6)</b>  |
| 16                                 | 19       | (3)         | <b>(16)</b> | - Fertilizers and sulphur         | 31       | 38       | (7)         | <b>(18)</b> |
| 15                                 | 18       | (3)         | <b>(17)</b> | - Forest products                 | 29       | 36       | (7)         | <b>(19)</b> |
| 49                                 | 48       | 1           | <b>2</b>    | - Chemicals and plastics          | 94       | 99       | (5)         | <b>(5)</b>  |
| 25                                 | 24       | 1           | <b>4</b>    | - Crude                           | 49       | 46       | 3           | <b>7</b>    |
|                                    |          |             |             | - Metals, minerals, and consumer  |          |          |             |             |
| 60                                 | 58       | 2           | <b>3</b>    | products                          | 116      | 112      | 4           | <b>4</b>    |
| 37                                 | 38       | (1)         | <b>(3)</b>  | - Automotive                      | 67       | 73       | (6)         | <b>(8)</b>  |
| 110                                | 93       | 17          | <b>18</b>   | - Domestic intermodal             | 207      | 182      | 25          | <b>14</b>   |
| 140                                | 157      | (17)        | <b>(11)</b> | - International intermodal        | 270      | 309      | (39)        | <b>(13)</b> |
| 689                                | 668      | 21          | <b>3</b>    | Total Carloads                    | 1,307    | 1,327    | (20)        | <b>(2)</b>  |
| <b>Freight Revenue per Carload</b> |          |             |             |                                   |          |          |             |             |
| \$ 3,219                           | \$ 3,127 | \$ 92       | <b>3</b>    | - Canadian Grain                  | \$ 3,374 | \$ 3,271 | \$ 103      | <b>3</b>    |
| 2,645                              | 2,159    | 486         | <b>23</b>   | - U.S. Grain                      | 2,675    | 2,225    | 450         | <b>20</b>   |
| 2,027                              | 1,921    | 106         | <b>6</b>    | - Coal                            | 1,963    | 1,878    | 85          | <b>5</b>    |
| 3,046                              | 2,706    | 340         | <b>13</b>   | - Potash                          | 2,983    | 2,719    | 264         | <b>10</b>   |
| 3,925                              | 3,609    | 316         | <b>9</b>    | - Fertilizers and sulphur         | 3,770    | 3,593    | 177         | <b>5</b>    |
| 3,502                              | 2,998    | 504         | <b>17</b>   | - Forest products                 | 3,452    | 2,944    | 508         | <b>17</b>   |
| 3,185                              | 2,809    | 376         | <b>13</b>   | - Chemicals and plastics          | 3,213    | 2,759    | 454         | <b>16</b>   |
| 4,524                              | 4,095    | 429         | <b>10</b>   | - Crude                           | 4,452    | 4,122    | 330         | <b>8</b>    |
|                                    |          |             |             | - Metals, minerals, and consumer  |          |          |             |             |
| 2,810                              | 2,537    | 273         | <b>11</b>   | products                          | 2,839    | 2,571    | 268         | <b>10</b>   |
| 2,798                              | 2,759    | 39          | <b>1</b>    | - Automotive                      | 2,850    | 2,751    | 99          | <b>4</b>    |
| 1,822                              | 1,839    | (17)        | <b>(1)</b>  | - Domestic intermodal             | 1,825    | 1,877    | (52)        | <b>(3)</b>  |
| 1,074                              | 1,017    | 57          | <b>6</b>    | - International intermodal        | 1,074    | 1,011    | 63          | <b>6</b>    |
| \$ 2,383                           | \$ 2,183 | \$ 200      | <b>9</b>    | Total Freight Revenue per Carload | \$ 2,384 | \$ 2,198 | \$ 186      | <b>8</b>    |

**Summary of Rail Data (Page 4)**

| 2014                                    | Second Quarter      |             |             | 2014    | Year-to-date        |             |             |
|---|---------------------|-------------|-------------|---------|---------------------|-------------|-------------|
|   | 2013 <sup>(1)</sup> | Fav/(Unfav) | %           |         | 2013 <sup>(1)</sup> | Fav/(Unfav) | %           |
| <b>Operations Performance</b>           |                     |             |             |         |                     |             |             |
| 71,333                                  | 67,232              | 4,101       | <b>6</b>    | 133,682 | 134,910             | (1,228)     | <b>(1)</b>  |
| 38,429                                  | 35,991              | 2,438       | <b>7</b>    | 72,804  | 72,154              | 650         | <b>1</b>    |
| 9,335                                   | 9,645               | 310         | <b>3</b>    | 18,062  | 19,639              | 1,577       | <b>8</b>    |
| 8,178                                   | 7,471               | 707         | <b>9</b>    | 7,924   | 7,337               | 587         | <b>8</b>    |
| 6,880                                   | 6,444               | 436         | <b>7</b>    | 6,634   | 6,369               | 265         | <b>4</b>    |
| 8.6                                     | 6.8                 | (1.8)       | <b>(26)</b> | 9.4     | 6.7                 | (2.7)       | <b>(40)</b> |
| 18.1                                    | 18.6                | (0.5)       | <b>(3)</b>  | 17.1    | 18.4                | (1.3)       | <b>(7)</b>  |
| Locomotive productivity (daily average) |                     |             |             |         |                     |             |             |
| 228.6                                   | 218.0               | 10.6        | <b>5</b>    | 216.5   | 211.5               | 5.0         | <b>2</b>    |
| 1.00                                    | 1.05                | 0.05        | <b>5</b>    | 1.05    | 1.09                | 0.04        | <b>4</b>    |
| 70.3                                    | 69.8                | (0.5)       | <b>(1)</b>  | 138.7   | 145.6               | 6.9         | <b>5</b>    |
| 3.53                                    | 3.45                | (0.08)      | <b>(2)</b>  | 3.58    | 3.50                | (0.07)      | <b>(2)</b>  |
| 14,787                                  | 15,471              | 684         | <b>4</b>    | 14,516  | 15,196              | 680         | <b>4</b>    |
| 14,736                                  | 15,355              | 619         | <b>4</b>    | 14,736  | 15,355              | 619         | <b>4</b>    |
| 14,960                                  | 16,053              | 1,093       | <b>7</b>    | 14,960  | 16,053              | 1,093       | <b>7</b>    |
| <b>Safety</b>                           |                     |             |             |         |                     |             |             |
| 1.84                                    | 1.51                | (0.33)      | <b>(22)</b> | 1.73    | 1.62                | (0.11)      | <b>(7)</b>  |
| 1.03                                    | 1.94                | 0.91        | <b>47</b>   | 1.08    | 1.95                | 0.87        | <b>45</b>   |

- (1) Certain prior period figures have been revised to conform with current presentation or have been updated to reflect new information.
- (2) Incorporates a new reporting definition where average terminal dwell measures the average time a freight car resides within terminal boundaries.
- (3) Incorporates a new reporting definition where average train speed measures the line-haul movement from origin to destination including terminal dwell hours.
- (4) Fuel efficiency is defined as U.S. gallons of locomotive fuel consumed per 1,000 GTMs freight and yard.
- (5) Includes gallons of fuel consumed from freight, yard and commuter service but excludes fuel used in capital projects and other non-freight activities.
- (6) An employee is defined as an individual, including trainees, who has worked more than 40 hours in a standard biweekly pay period. This excludes part time employees, contractors, and consultants.
- (7) Workforce is defined as total employees plus part time employees, contractors, and consultants.